



Head and Members of the CDM Executive Board

Mr. Clifford Mahlung  
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**To** cdm-info@unfccc.int  
**From** matt.spannagle@undp.org

**Date** 15 October 2010

**Subject** **Consultation on Standard on the use of materiality and level of assurance in the Clean Development Mechanism**

Dear Mr. Mahlung,

Members of the CDM Executive Board,

UNDP congratulates the Executive Board for engaging the issue of materiality and level of assurance as key elements for streamlining the CDM process.

On input (a): UNDP believes the draft standard threshold be harmonised with the most relevant schemes, namely the EU ETS and JI. These thresholds are respectively 5% for the verification at installations with annual emissions smaller than 500ktCO<sub>2</sub>e and 2% for installations with annual emissions of more than 500ktCO<sub>2</sub>e; and 5% for projects with emission reductions of less than 100ktCO<sub>2</sub>e and 2% for all other activities.

UNDP then proposes a threshold of 5% for Small Scale projects (and VSSC as applicable), and 2% for all other projects.

It should be noted that these thresholds, higher than those proposed in the draft standard, are nonetheless lower than thresholds set in voluntary standards such as VCS, and lower than in national programmes such as Australia's Greenhouse Friendly. In other words, harmonising with the schemes most relevant to CDM is still conservative within the broader context of carbon markets.

On (b): UNDP believes the scope of application of materiality and level of assurance should be comprehensive. That is, it should be applied at validation and verification, and should be applied by DOEs, as well as any Secretariat, outsourced technical reviewers or EB members involved in project assessments. Further, an understanding and appreciation of the concepts should be embedded throughout the CDM, including in methodologies and processes.

Recognising that implementation may need to be phased, the first phase should be associated with DOEs and issuance.

On (c): UNDP asks that the EB recognise that materiality and level of assurance are well established and familiar concepts in environmental auditing, which have in turn been adopted from financial auditing. Without these concepts, CDM is not operating at best practice. These concepts do not need to be re-invented by EB or UNFCCC and their implementation need not be a cause for great concern – rather, it is bringing CDM to modern professional standards, in the same way that formalisation of registration processes have been.

The appropriate forum for implementation should be at the technical level, led by Secretariat staff with substantive input from stakeholders, particularly DOEs, project proponents (or their associations such as IETA, CMIA, PD Forum) and potentially with input from the broader auditing community such as through IASB. Additional consultation and lessons can also be learnt from the Gold Standard's implementation of materiality in its implementation of both CDM and voluntary Gold Standard certification procedures.

UNDP hopes these short 'in principle' inputs are of use, and we would be happy to provide further elaboration as desired.

Sincerely,



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